CPP Pension Users: Supplement Your CPP With 2 Blue-Chip Dividend Stocks

Description

We know that the Canadian Pension Plan (CPP) contribution rate has been increased from 5.1% to 5.25% in 2020. This means that the total CPP contribution will now increase to 10.5% of total pensionable earnings, up from the 2019 figure of 10.2%.

However, pensioners cannot just depend on the CPP for their livelihood. Though the CPP has been enhanced gradually, the maximum monthly amount for a new recipient at the age of 65 is $1,154.8, while the average monthly payment was $679.16 in 2019.

The enhancement will continue to rise till 2023, when the contribution rate will increase to 5.95% with a combined contribution rate of 11.9%. These contribution enhancements will replace about 33% of an individual's pre-retirement income, up from the prior figure of 25%.

So, pensioners will still need another stream of income to support their living standards. Investing in blue-chip dividend stocks will help pensioners generate steady passive income. Equity investments are risky. So, pensioners need to identify stocks with low betas, strong market positions, and robust cash flows.

Canadian Imperial Bank of Commerce

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is one of Canada's largest banks. With a market cap of $48.3 billion, it is a domestic heavyweight. It provides a range of financial products and services to over 11 million individual, small business, corporate, and institutional clients. It has three primary business segments: Retail & Business Banking, Wealth Management, and Capital Markets.

Canada's gross domestic production is expected to grow by 1.8% in 2020 and 2021. A strong domestic economy will result in higher consumption and an increase in business confidence, which will help CIBC and peers.

Now, let's look at the company's valuation and growth metrics. Analysts expect CIBC to increase sales by 3.6% to fiscal 2020 and by 4.2% in 2021. Comparatively, earnings are expected to rise by 0.8% in

2020 and 4.1% in 2021.

The stock is trading at a forward price-to-earnings multiple of 8.7, which is reasonable considering a juicy forward dividend yield of 5.3%. With a payout ratio of 50%, the company has enough room to increase dividend payments in the future.

CIBC's price-to-sales ratio of 2.8 and price-to-book ratio of 1.36 make it a solid bet for pensioners.

Canadian Utilities

Utility stocks are one of the best defensive investments in equities. Whether recession or not, the common populace will continue spending on utilities. **Canadian Utilities** (TSX:CU) has a market cap of $11 billion and an enterprise value of $20.74 billion and is another domestic giant.

The company generates a majority of sales from Canada (around 95%) and the rest from Australia. It's a company with strong cash flows, high-quality earnings, and disciplined management.

Canadian Utilities has a price-to-sales ratio of 2.7 and a price-to-book ratio of 2.11. It has a forward dividend yield of 4.33% and a payout ratio of 46%. Like CIBC, Canadian Utilities can also increase dividend payments in the future.

It has paid out dividends for 47 consecutive years — the longest time frame for a Canadian company. The stock is up 20.6% in the last year and has been a solid wealth creator for long-term investors.

CATEGORY

1. Dividend Stocks
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2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:CU (Canadian Utilities Limited)

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